

Federal Reserve Board Grants One-year Extension on Volcker Rule Conformance for Certain Covered Funds

The Federal Reserve today extended the Volcker Rule conformance period for legacy covered funds from July 21, 2015 to July 21, 2016, and also granted a further one year extension until July 21, 2017.

At 3 pm today (December 18, 2014), the Board of Governors of the Federal Reserve System (the Board) announced that it had exercised its statutory authority under section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Volcker Rule), to grant banking entities covered by the rule an extension until July 21, 2016 (from July 21, 2015) to conform or divest those investments in and relationships with covered funds and foreign funds that were in place prior to December 31, 2013 (legacy covered funds).

At the same time, the Board also announced its intention to further exercise its statutory authority next year (2015) and grant an additional, final, one-year extension, until July 21, 2017 to bring legacy covered funds into conformance with the Volcker Rule requirements. The rationale behind a two-step announcement is that the Board only has the authority to grant extensions one year at a time (for a maximum of three years). The Board previously granted an industry-wide one-year extension to the conformance period deadline — from July 21, 2014 to July 21, 2015.

We note that these extensions only apply to the covered funds prohibition under the Volcker Rule, in respect of legacy covered funds. Therefore, all investments in and relationships with a covered fund entered into or made after December 31, 2013 must be in conformance with the provisions of the Volcker Rule by July 21, 2015. The Board must receive any applications for an extension for a fund investment made after December 31, 2013 by January 20, 2015.

We also note that today's order does not grant conformance period extensions for the proprietary trading prohibition on banking entities. The conformance deadline for proprietary trading activities remains July 21, 2015.

The Board's extension announcement today is consistent with its previous announcement in April 2014 regarding collateralized loan obligations (CLOs), when the Board indicated that it intended to grant banking entities with investments in CLOs that were in place prior to December 31, 2013, two one-year extensions to conform such ownership interests and sponsorship activities by July 21, 2017.

During the respective conformance periods noted above, the Board expects each banking entity to engage in good faith efforts to conform all of its activities and investments to the requirements of the Volcker Rule and to become fully compliant no later than the end of the applicable conformance period.

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